

**Statement of Frank J. Wilson
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Before the

**Committee on Transportation and Infrastructure
Subcommittee on Highways and Transit
U.S. House of Representatives
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Public-Private Partnerships: Innovative Financing and Protecting the Public Interest

Mr. Chairman, Ranking Member Duncan, and Members of the Subcommittee:
Thank you for the opportunity to testify before you today on Public-Private Partnerships:
Innovative Financing and Protecting the Public Interest.

I am Frank J. Wilson, President and CEO of the Metropolitan Transit Authority of Harris County, Texas, commonly known as Houston METRO. Previously, I was president of AECOM Enterprises, an international engineering and construction management consulting firm, for six years. I also served as president of Daniel, Mann, Johnson & Mendenhall. I served as Commissioner of the Department of Transportation for the State of New Jersey and was responsible for all transportation development, construction, maintenance, operations, and finances. I also served as General Manager of the Bay Area Rapid Transit District (BART) in San Francisco and as Deputy Director of mass transit systems in Philadelphia and Chicago. I earned a B.S. in civil engineering from Drexel University and an M.S. in civil/urban engineering from the University of Pennsylvania.

Houston's growth is staggering and our population is expected to double in the next 15 years. This population increase will only exacerbate our already poor traffic conditions. Houston METRO is aggressively working to manage this problem by providing transit alternatives as quickly as possible.

Houston will need massive capital investment in transportation infrastructure over the next 20 years. But more importantly over the next five years, the spend rate necessary to meet our short term goals will be even more demanding. In short, federal, state, and local financial resources, although significant, will be insufficient to meet these needs. Also, the traditional public financing model results in lengthy project delivery schedules something that Houston can no longer afford if we are to meet the binding deadlines resulting from a 2003 voter referendum and respond meaningfully to public antipathy toward excessive commute times. It is estimated that the cost of congestion in Houston alone is over \$2 billion per year. It is our belief that federal programs will not be modified in the near-term to meet these immediate needs. We also believe that private equity investments in infrastructure projects across the globe have resulted in a very sophisticated marketplace where we cannot only find investors, but also experienced and reliable private operators and managers of transportation infrastructure.

When we look at all modes of transportation (i.e. highways, aviation, and transit), there is a noticeable change underway in how public-use infrastructure projects are approached. Entities like METRO can no longer wait, sometimes for decades, for our turn to receive evermore scarce federal and state resources to undertake projects that are needed immediately. Today, a vibrant private equity market is providing opportunities for financing, building, and operating these needed facilities. It is not an option that works in every circumstance, but there are often circumstances where a partnership between public and private makes better sense than one party “owning” the project. What we need from the federal government is a policy that embraces these options and doesn’t discourage private investment. There are proven experiences throughout the world where the public’s interest in public-use infrastructure is preserved without sacrificing the ingenuity and innovation that accompanies private sector involvement.

The demand and competition of transportation improvements continues to grow, while typically the byzantine process involved to secure the funds discourages the private sector from participating. Public-Private Partnerships are a tool to help finance and deliver these improvements in a timely fashion. While most people focus on the highway sector when it comes to Public-Private Partnerships, I believe there is a tremendous potential to apply the concept in the transit sector. The benefits to transit lie in the project delivery and finance method which can help the public sector deliver more improvements faster, without giving up quality, control or public protections.

Public-Private Partnerships allow our transit agencies to focus on their core business, operating their already overtaxed transportation systems. Our skills lie in providing comprehensive transportation services, but we are ill equipped to tackle the large and exceptionally complex system expansion programs needed to meet our future needs. We have neither the skills nor the resources required to execute complicated design and construction projects that routinely range in the hundreds of millions of dollars, nor can we rapidly expand our workforce to meet these demands, only to shrink them when the project is complete. The private sector, on the other hand, has an abundance of the skills we need and routinely adjusts its workforce to meet the demands of our market. Our ability to tap into their ingenuity and flexibility is critical to the future of our industry.

The private partnership comes in the form of expediting design and construction, managing risk, providing costs and schedule certainty, and providing performance guarantees through the operation and maintenance portion of the contracts.

My views are not mere academic assertions. They were formed in the crucible of real world experience, over 30 years, involving eleven projects in seven states.

The common benefits from the partnerships I have been involved with include:

- Expedited schedules
- Cost certainty
- Reduced exposure to claims
- Allocating appropriate risk to the private sector

- Maintain public accountability
- Shared liability
- Access to private entrepreneurialism and innovation

In Houston, we are currently moving forward on a Public-Private Partnership to expand our rapid transit network. We have worked with our community and our state legislature to give us the ability to use this contracting model. We selected a partner just a few weeks ago and we are now negotiating the terms and scope of our project. Our private partner will be helping us take four different transit corridors from concept to operation as quickly as possible. We intend to have them finance the construction costs, which would be reimbursed through federal New Starts funds in the coming years. In fact, we are working closely with the Federal Transit Administration to determine the best way to facilitate our approach within their existing program. We are hopeful that the most likely outcome will be to serve as a pilot project under their newly announced Public-Private Partnership Pilot Program.

Key Factors of our METRO Solutions program include:

- The program is multi-modal in nature. It includes a central intermodal terminal that will eventually bring together commuter rail, light rail, bus rapid transit, interstate highway, carpool, vanpool, airport connections, and provisions for future high speed intra-state rail connections.
- The local community has committed to providing a significant portion of the total program costs through a local sales tax and has authorized \$640 million in bonds.
- The program is being implemented through a classic 3P contract model using a Design-Build-Operate-Maintain (DBOM) contracting strategy.
- The program will be delivered through a few major contracts, not numerous individual projects, giving the private partner responsibility for all of the coordination risks.
- METRO is willing to guarantee the program costs and schedule.
- The program is implemented on an exceptionally aggressive schedule. Construction will begin in 2007, with the first lines expected to be operational in 2010 and all construction completed by 2012.
- The program will include private sector financing, as well as private sector equity.
- Cost risk, schedule risk, and performance risks will be shifted to our private sector partner.

As you consider options and alternatives to enhancing the tools available to getting critical infrastructure deployed, I urge you to implement federal policy that encourages Public-Private Partnerships. They can help our nation keep up with critical infrastructure investments.

That concludes my remarks. Again, thank you for this opportunity and I welcome your questions or comments.